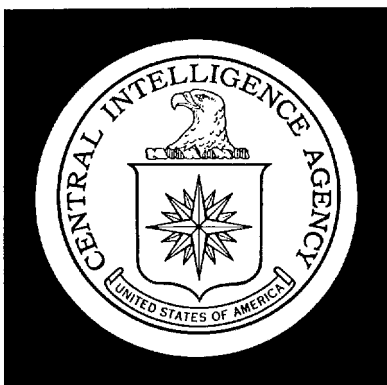


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Communist China: Serious morale problems among veteran officials are still undermining the restoration of effective civilian leadership in many localities.

A series of recent broadcasts reflects foot-dragging by cadres who had been criticized during the Cultural Revolution and subsequently reinstated in official positions. A broadcast from Hupeh Province on 1 March, for example, complained that veteran cadres there are refusing to take any action for fear that they will make mistakes again. Last month an authoritative People's Daily article voiced a similar complaint, saying that cadres are afraid to become involved because they might offend people and put themselves in jeopardy.

Apparently Peking's heavy crackdown over the past few months on radical ex - Red Guards, the primary tormentors of the veteran cadres, has done little to reassure many local officials. Although Peking is currently trying to pursue policies aimed at political and economic stabilization, resistance by radicals to these policies, and to the officials associated with them, is still strong.

Current cadre fears are not unfounded. From time to time supporters of former Red Guard factionalists in various areas issue statements suggesting that they still enjoy some high-level support in Peking. Moreover, many cadres, including veterans and those elevated from the Red Guards, are now being caught up in the "anticorruption" campaign that is sweeping China. According to [redacted] reports from Kwangtung Province, for example, large numbers of officials have been purged at public trials and sent to labor reform camps. [redacted] in some instances officials awaiting trial have committed suicide--a phenomenon that has seldom been reported since the height of the Cultural Revolution.

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Australia: Parliament reconvened on 3 March with the prospect of stormy sessions ahead.

The Liberal-Country government has a majority of seven in the 125-member house. It faces a rejuvenated opposition Labor Party that is already predicting gains in the Senate election late this year and a parliamentary victory in 1972. As a result, the Liberal Party lacks confidence, and many backbenchers are believed to be waiting for an opportunity to embarrass and perhaps to replace Prime Minister Gorton.

The government's opening address, read by Governor General Hasluck, while focusing chiefly on domestic affairs, reaffirmed Australia's commitment to Malaysia-Singapore defense and to cooperation with the US in Vietnam. Hasluck stated that some Australian troops would be included in any new major withdrawal of allied forces and promised a comprehensive government statement on defense policy in the near future.

This statement is likely to draw a major Labor Party attack because it presumably will repeat a number of policies that Labor has consistently opposed. These include Vietnam, Malaysia-Singapore defense, and conscription. Labor probably will claim that Australia's defense commitments are out of step with the Nixon Doctrine and that Australia has no business keeping ground forces in Asia when the US is withdrawing.

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Guatemala: The possibility of an electoral crisis has receded.

The lead by the rightist opposition in the presidential race and its possible majority in the new congress are evidence of the honesty of the vote count. Both opposition parties were prepared to claim fraud if the government had won, and the administration was especially fearful that the military would not remain loyal in a crisis.

The presidential election technically is still undecided because Colonel Carlos Arana won a plurality rather than a majority. Formal acknowledgement of his victory now depends on a choice by congress between Arana and the runnerup, government candidate Mario Fuentes Pieruccini. Some diehards in the government party have contemplated using their majority in the incumbent legislature to elect Fuentes, since the constitution does not specify whether the old or new congress is responsible for the selection. In the light of Arana's 40,000-vote lead over Fuentes, however, and the congratulatory message sent to Arana by the Christian Democratic candidate, who captured more than 20 percent of the vote, the congress seems unlikely to tamper with the voters' repudiation of the present government.

Arana's political bent has been unequivocally rightist. As president he nevertheless may develop a more moderate position than many expect, according to the US Embassy. He may also experience difficulty in reining in some of the extremist elements that support him. Arana's reputation as Guatemala's foremost anti-Communist and his promised campaign against crime and terrorism may incite subversive groups to terrorism before he takes office on 1 July.

Arana has taken a tough line on defending Guatemala's claims to British Honduras. This threatens to reverse the modest efforts made by the present government toward seeking a compromise with the UK allowing for the colony's independence.

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Peru: The Velasco government's arrest of five opposition labor leaders and the expropriation of two Lima newspapers may signal a general move toward greater repression by the military government.

Five key leaders of the National Federation of Sugar Workers, controlled by the military's traditional enemy APRA, were arrested last week end for allegedly impeding implementation of the agrarian reform law. The union leaders had called a strike on a government-run sugar plantation to protest police action against the workers on 24 February. That action resulted in several injuries and one death when police broke up a rally of sugar workers just before APRA Party leader Haya de la Torre was scheduled to speak. Many Peruvians fear that the decision to try the accused labor leaders before a military tribunal could result in a showdown.

In another move to silence its critics, the military government seized two opposition newspapers on 4 March and promised to turn them over to a workers' cooperative. The cooperative is apparently being formed by the Communist-dominated union at the company that published the influential Expreso and Extra. If the Communists gain control of the cooperative, as appears likely, it could provide the party with an excellent vehicle for its propaganda activities. The expropriation will probably be greeted by outrage from other Lima newspapers, but it will nevertheless serve the government's purpose of demonstrating that there is a limit to how far opposition can go.

The crackdown on APRA and the expropriation of the newspapers will create fears of further repression and will almost certainly set back the government's efforts to regain the confidence of private businessmen, which is needed to rejuvenate the Peruvian economy.

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Hungary: Budapest is drafting a foreign investment law that might allow up to 50 percent foreign ownership of certain economic enterprises.

It is doubtful that the law will be approved this year because Budapest apparently wants to establish a model company first to assess the results of co-ownership. Hungarian firms have offered such an opportunity to a US firm that produces tractors and automobiles as well as to another that would operate a computer data center.

Such an approach would help Budapest upgrade its economy with smaller initial hard-currency expenditures. Hungary already has some coproduction ventures with Western commercial firms. In these cases, however, the Western partner provides the capital and entrepreneurship, but has no ownership rights. Budapest supplies the plant, labor, and raw materials and retains ownership. Other joint marketing arrangements have involved partial Hungarian ownership, but these have been located in Western countries.

The Hungarians may be able to rationalize the ideological difficulties that foreign ownership presents, but they would have a tough time convincing the Soviets that the move does not represent a dangerous concession to Western interests.

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East Germany - West Germany: Trade is not expected to grow much this year after reaching a record \$1 billion in 1969.

Total trade grew by about one third last year, largely because of increased East German purchases made on West German credit. As a result, Pankow's indebtedness to Bonn now exceeds \$240 million. This does not include outstanding private credits of more than \$190 million. As much as one half of the total may have to be repaid or refinanced this year.

The high level of existing credit indebtedness probably will inhibit further trade growth. Even if Pankow is able to increase sales to Bonn by as much as 15 percent, imports probably will have to be reduced below the 1969 level in order to permit credit repayments due in 1970. The Federal Government has thus far refused to finance an additional swing credit to help stimulate West German sales this year. If, however, East German firms succeed in getting substantial new private commercial credits with extended repayment terms, purchases of West German goods could rise above the 1969 level.

Pankow has been trying to reduce its dependence on Bonn for goods essential to its economic development. A sharp reduction in imports from Bonn, however, would have adverse effects on industrial expansion and on the output of East German export industries, including those that earn hard currency.

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NPT: The Nonproliferation Treaty (NPT) will enter into force today, but several of its important provisions are not likely to become effective for some time.

Although all the EURATOM countries except France have signed the NPT, their ratification depends on the satisfactory conclusion of negotiations between the International Atomic Energy Agency (IAEA) and EURATOM on safeguards arrangements. The IAEA Board of Governors failed to reach agreement last week on how to begin planning for negotiations, further evidence that the talks will be long and tough.

There are two provisions on which the non-nuclear states will be looking for progress in talks between the US and the USSR. One is the treaty's statement on procedures for making the benefits of peaceful applications of nuclear explosions available to the non-nuclear countries. The other is the promise to continue negotiations on nuclear disarmament.

To date neither France nor Communist China has shown any interest in becoming a nuclear party to the agreement. Two threshold countries, Japan and Australia, have recently signed the treaty. Prospects remain poor, however, that either India or Israel will sign.

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Finland-UN: The Finns have launched an initiative to strengthen the Security Council.

The Finnish ambassador to the UN has presented an aide-memoire which calls for periodic, closed meetings of the Security Council. Such regularized meetings could provide a forum for a discreet exchange of views on controversial issues without fear of acrimonious public debate that at present often deters the convening of Security Council meetings.

The suggestion has received favorable reaction from Security General Thant and US Ambassador Yost, and the Soviet representative at least has not responded negatively. The Finnish ambassador plans to consult with all the current Security Council members about the proposal during the next ten days.

The move constitutes further evidence that Helsinki has undertaken a more active foreign policy aimed at buttressing its independence without annoying the Soviets. The selection of Helsinki as site for the strategic arms limitation talks has been held up as evidence that this policy is paying off. Another recent example was Finland's effort to drum up support for a European security conference in Helsinki; the Finns hope to keep this alive with a further initiative in the near future.

The Finns were probably also motivated in putting forward this proposal by the discussions now going on about ways to strengthen the UN on its upcoming 25th anniversary. It also fits in with renewed consideration of the Soviet resolution on "strengthening international security" that was introduced at the General Assembly last fall and referred to the next session which opens in September.

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USSR - Middle East: A Soviet deputy premier--the highest-ranking Jew in the hierarchy--denied at a Foreign Ministry press conference yesterday that Egypt has asked the Soviet Union for "MIG-23s." He sidestepped a question on providing Soviet pilots to Egypt, but acknowledged the presence of Soviet advisers there. The conference apparently was intended to demonstrate that Soviet Jewry is united behind Moscow's policy, and a number of prominent Jews participated. They had signed a statement castigating Israeli aggression, which was read at the beginning of the conference.

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Italy: The mandate given former premier Moro provides more flexibility. Unlike caretaker Premier Rumor, who failed last week in a mandate that limited him to forming only a center-left coalition including all four parties, Moro may explore any possibilities within the general context of a center-left framework. His options therefore range from a coalition of all or some of the parties to an all-Christian Democratic government supported by the center-left. The fact that all parties know that Moro has this flexibility and can withdraw from his task without losing face if they make unreasonable demands, may ease his efforts to find an acceptable formula.

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